Trisura Group Ltd.

Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2019

TRISURA GROUP LTD.
Condensed Interim Consolidated Financial Statements (unaudited)

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TRISURA GROUP LTD.
Condensed Interim Consolidated Statements of Financial Position (unaudited)
(in thousands of Canadian dollars, except as otherwise noted)

As at	*Note*	**June 30, 2019**	December 31, 2018
Assets			
Cash and cash equivalents		**64,949**	95,212
Investments	*4*	**321,844**	282,874
Premiums and accounts receivable, and other assets	*9*	**72,143**	46,276
Deferred acquisition costs		**81,642**	63,715
Recoverable from reinsurers	*11*	**197,986**	109,567
Capital assets and intangible assets	*8*	**10,208**	2,512
Deferred tax assets		**1,700**	826
Total assets		**750,472**	600,982
Liabilities			
Accounts payable, accrued and other liabilities	*10*	**30,868**	24,167
Reinsurance premiums payable		**51,144**	41,406
Unearned premiums		**254,658**	182,623
Unearned reinsurance commissions		**33,154**	19,137
Unpaid claims and loss adjustment expenses	*7*	**221,499**	173,997
Loan payable	*13*	**29,700**	29,700
		621,023	471,030
Shareholders' equity			
Common shares	*14*	**163,582**	163,582
Preferred shares	*14*	**1,600**	1,600
Contributed surplus		**531**	313
Accumulated deficit		**(34,976)**	(33,307)
Accumulated other comprehensive loss		**(1,288)**	(2,236)
		129,449	129,952
Total liabilities and shareholders' equity		**750,472**	600,982

See accompanying notes to the Condensed Interim Consolidated Financial Statements

TRISURA GROUP LTD.
Condensed Interim Consolidated Statements of Comprehensive (Loss) Income (unaudited)
(in thousands of Canadian dollars, except as otherwise noted)

		Three months		Six months	
For the periods ended June 30,	*Note*	**2019**	**2018**	**2019**	2018
Gross premiums written		**109,313**	58,661	**190,696**	93,485
Reinsurance premiums ceded		**(72,140)**	(28,243)	**(125,077)**	(39,122)
Retrospective premiums refund		**(40)**	(40)	**(76)**	(74)
Net premiums written		**37,133**	30,378	**65,543**	54,289
Change in unearned premiums		**(11,151)**	(9,087)	**(17,468)**	(13,744)
Net premiums earned		**25,982**	21,291	**48,075**	40,545
Fee income		**1,752**	403	**6,101**	3,679
Total underwriting revenue		**27,734**	21,694	**54,176**	44,224
Claims and expenses					
Claims and loss adjustment expenses		**(60,220)**	(12,146)	**(105,061)**	(32,001)
Reinsurers' share of claims and loss adjustment expenses		**43,957**	7,950	**73,904**	23,102
Commissions		**(18,362)**	(10,150)	**(34,171)**	(19,495)
Reinsurance commissions		**9,306**	2,702	**16,597**	4,450
Premium taxes		**(1,388)**	(1,126)	**(2,398)**	(2,062)
Operating expenses		**(9,937)**	(8,884)	**(20,217)**	(17,005)
Total claims and expenses		**(36,644)**	(21,654)	**(71,346)**	(43,011)
Net underwriting (loss) income		**(8,910)**	40	**(17,170)**	1,213
Net investment income	*16*	**6,092**	2,079	**10,688**	3,989
Settlement from structured insurance assets	*4.4*	**-**	**-**	**8,077**	-
Foreign exchange gains (losses)		**212**	(207)	**584**	(324)
Interest expense	*13*	**(342)**	(235)	**(687)**	(466)
(Loss) income before income taxes		**(2,948)**	1,677	**1,492**	4,412
Income tax expense	*19*	**(1,190)**	(693)	**(3,113)**	(1,565)
Net (loss) income		**(4,138)**	984	**(1,621)**	2,847
Net (loss) income attributable to shareholders		**(4,138)**	984	**(1,621)**	2,847
Weighted average number of common shares outstanding during the period (in thousands) – basic		**6,622**	6,622	**6,622**	6,622
Earnings per common share (in dollars) – basic and diluted	*15*	**(0.63)**	0.14	**(0.25)**	0.42
Net (loss) income		**(4,138)**	984	**(1,621)**	2,847
Net unrealized gains (losses) on available-for-sale investments		**198**	743	**6,140**	(2,384)
Income tax benefit (expense)		**219**	(211)	**(1,019)**	380
Items that may be reclassified subsequently to net (loss) income		**417**	532	**5,121**	(2,004)
Net realized losses		**(320)**	(593)	**(604)**	(253)
Impairment adjustment		**-**	-	**-**	325
Income tax benefit (expense)		**36**	72	**217**	(41)
Items reclassified to net (loss) income		**(284)**	(521)	**(387)**	31
Items other than cumulative translation (loss) gain		**133**	11	**4,734**	(1,973)
Items that will not be reclassified subsequently to net (loss) income – Cumulative translation (loss) gain		**(1,843)**	1,931	**(3,786)**	4,217
Other comprehensive (loss) income		**(1,710)**	1,942	**948**	2,244
Total comprehensive (loss) income		**(5,848)**	2,926	**(673)**	5,091

See accompanying notes to the Condensed Interim Consolidated Financial Statements

TRISURA GROUP LTD.
Condensed Interim Consolidated Statements of Changes in Equity (unaudited)
(in thousands of Canadian dollars, except as otherwise noted)

	Note	**Common shares**	**Preferred shares**	**Contributed surplus**	**Accumulated deficit**	**Accumulated other comprehensive loss (net of income taxes)**	**Total**
Balance at January 1, 2019		163,582	1,600	313	(33,307)	(2,236)	**129,952**
Net (loss) income		-	-	-	(1,621)	-	**(1,621)**
Other comprehensive income		-	-	-	-	948	**948**
Comprehensive (loss) income		-	-	-	(1,621)	948	**(673)**
Share-based payments		-	-	218	-	-	**218**
Dividends paid	*14*	-	-	-	(48)	-	**(48)**
Balance at June 30, 2019		**163,582**	**1,600**	**531**	**(34,976)**	**(1,288)**	**129,449**

	Note	Common shares	Preferred shares	Contributed surplus	Accumulated deficit	Accumulated other comprehensive (loss) income (net of income taxes)	Total
Balance at January 1, 2018		163,582	1,600	89	(41,849)	(1,920)	121,502
Net income		-	-	-	2,847	-	2,847
Other comprehensive income		-	-	-	-	2,244	2,244
Comprehensive income		-	-	-	2,847	2,244	5,091
Share-based payments		-	-	121	-	-	121
Dividends paid	*14*	-	-	-	(48)	-	(48)
Balance at June 30, 2018		163,582	1,600	210	(39,050)	324	126,666

See accompanying notes to the Condensed Interim Consolidated Financial Statements

TRISURA GROUP LTD.

Condensed Interim Consolidated Statements of Cash Flow (unaudited)

(in thousands of Canadian dollars, except as otherwise noted)

For the six months ended June 30,	2019	2018
Operating activities		
Net (loss) income	**(1,621)**	2,847
Items not involving cash:		
Depreciation and amortization	**1,169**	677
Unrealized (losses) gains	**(2,109)**	1,387
Impairment loss on available-for-sale investments	**-**	325
Payment in kind	**(220)**	-
Stock options granted	**218**	243
Change in working capital	**14,278**	(2,245)
Realized (gains) losses on investments	**(1,746)**	301
Income taxes paid	**(1,867)**	(1,941)
Interest paid	**(706)**	(469)
Net cash flows from operating activities	**7,396**	1,125
Investing activities		
Proceeds on disposal of investments	**28,549**	32,118
Purchases of investments	**(63,244)**	(104,749)
Purchases of capital assets	**(224)**	(255)
Purchases of intangible assets	**(80)**	(60)
Net cash flows used in investing activities	**(34,999)**	(72,946)
Financing activities		
Dividends paid	**(48)**	(48)
Loans received	**-**	29,700
Repayment of loans payable	**-**	(29,700)
Principal portion of lease payments	**(495)**	-
Net cash flows used in financing activities	**(543)**	(48)
Net decrease in cash and cash equivalents during the period	**(28,146)**	(71,869)
Cash, beginning of period	**93,153**	83,146
Cash equivalents, beginning of period	**2,059**	82,529
Cash and cash equivalents, beginning of period	**95,212**	165,675
Impact of foreign exchange on cash and cash equivalents	**(2,117)**	3,933
Cash, end of period	**54,686**	88,788
Cash equivalents, end of period	**10,263**	8,951
Cash and cash equivalents, end of period	**64,949**	97,739

See accompanying notes to the Condensed Interim Consolidated Financial Statements

Note 1 – The Company

Trisura Group Ltd. (the "Company") was incorporated under the *Business Corporations Act* (Ontario) (the "Act") on January 27, 2017. The Company's head office is located at 333 Bay Street, Suite 1610, Box 22, Toronto Ontario, M5H 2R2.

The Company owns three principal subsidiaries, in some instances through wholly-owned intermediary holding companies, through which it conducts insurance operations. These subsidiaries are Trisura Guarantee Insurance Company ("Trisura Guarantee"), Trisura International Insurance Ltd. ("Trisura International"), which is wholly-owned through the intermediary holding company Trisura International Holdings Ltd. ("TIHL"), and Trisura Specialty Insurance Company ("Trisura Specialty"). Trisura Guarantee was previously held through an intermediary holding company, 6436978 Canada Limited ("643 Can Ltd"), which was wound up in June 2018 (see Note 17).

Trisura Guarantee operates as a Canadian property and casualty insurance company. Trisura International is currently managing its in-force portfolio of specialty reinsurance contracts. Trisura Specialty is licensed by the Oklahoma Insurance Department as a domestic surplus lines insurer and can write business as a non-admitted surplus line insurer in all states within the United States.

In June 2019, the Company applied for approval from the Pennsylvania Insurance Department to acquire control of a shell entity, with 13 admitted state licenses that will enhance the offering of Trisura Specialty. Regulatory approval is pending.

In 2018, the Company incorporated Trisura Warranty Services Inc. ("Trisura Warranty"), and on January 22, 2019 purchased an existing book of warranty contracts from a third party, which Trisura Warranty will continue to administer. Trisura Warranty has begun to sell warranty products, which will serve as a complimentary business to the insurance products sold through Trisura Guarantee.

The common shares of the Company are publicly traded on the Toronto Stock Exchange under the symbol "TSU".

Note 2 – Basis of presentation

These Condensed Interim Consolidated Financial Statements ("Interim Consolidated Financial Statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The Interim Consolidated Financial Statements should be read in conjunction with the annual financial statements for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Interim Consolidated Financial Statements comprise the financial results of the Company and all entities controlled by the Company, on a consolidated basis of presentation. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

In accordance with IFRS, presentation of assets and liabilities on the Condensed Interim Consolidated Statements of Financial Position is in order of liquidity. The Company's functional and presentation currency is Canadian dollars.

These Interim Consolidated Financial Statements were authorized for issuance by the Company's Board of Directors on August 8, 2019.

Note 3 – Summary of significant accounting policies

The accounting policies applied during the three and six months ended June 30, 2019 are the same as those described and disclosed in Note 2 – *Summary of significant accounting policies* of the December 31, 2018 Consolidated Financial Statements.

3.1 Leases

Effective January 1, 2019, the Company adopted the new leases standard IFRS 16 *Leases* and applied the modified retrospective method upon adoption. The Company has determined that the impact of adoption resulted in the addition of a right-of-use ("ROU") asset of $8,358 and a corresponding lease liability of $8,358 (see Note 8). At the commencement date, the Company measured the ROU assets at cost and the lease liability at the present value of future lease payments. The Company used the incremental borrowing rate at the date of initial application as the discount rate.

The ROU assets are carried at cost less accumulated depreciation. The ROU assets are depreciated over the earlier of the end of the useful life of the underlying asset or the end of the term of the underlying lease contracts. The carrying value of the lease liability is remeasured at each reporting period as the present value of future lease payments and is reduced by lease payments as they are made.

Short-term leases or leases of low-value assets are accounted for by recognizing the lease payments associated with those leases as an expense on a straight-line basis over the term of the leases, as permitted by IFRS 16.

(in thousands of Canadian dollars, except as otherwise noted)

Note 4 – Investments

4.1 Classification of cash and investments

The following table presents the classification of cash and investments:

As at June 30, 2019	**AFS**	**Designated FVTPL**	**Cash, loans and receivables**	**Total**
Cash and cash equivalents	**-**	**-**	**64,949**	**64,949**
Investments				
Fixed income	**200,197**	**47,919**	**4,016**	**252,132**
Income and investment trust units	**2,650**	**-**	**-**	**2,650**
Common shares	**25,576**	**-**	**-**	**25,576**
Preferred shares	**30,223**	**-**	**-**	**30,223**
Structured insurance assets	**-**	**11,263**	**-**	**11,263**
Total cash and investments	**258,646**	**59,182**	**68,965**	**386,793**

As at December 31, 2018	AFS	Designated FVTPL	Cash, loans and receivables	Total
Cash and cash equivalents	-	-	95,212	95,212
Investments				
Fixed income	195,966	18,302	3,959	218,227
Income and investment trust units	2,338	-	-	2,338
Common shares	24,702	-	-	24,702
Preferred shares	25,307	-	-	25,307
Structured insurance assets	-	12,300	-	12,300
Total cash and investments	248,313	30,602	99,171	378,086

On November 20, 2018, the Company derecognized financial assets with a face value of $2,762 as the rights to receive cash flows and risks and rewards of ownership to the assets have been transferred. The carrying value of the asset was measured at $2,785, resulting in a realized loss of $21. As at June 30, 2019, the Company's continuing interest in the financial asset is measured at carrying value of $4,016 (December 31, 2018 – $3,959).

(in thousands of Canadian dollars, except as otherwise noted)

4.2 Unrealized gains and losses and carrying value of investments

The amortized cost and carrying value of investments as at June 30, 2019 and December 31, 2018 were as follows:

As at June 30, 2019	**FVTPL investments**	**Other investments**				**Total investments**
	At carrying value	**Amortized cost**	**Unrealized gains**	**Unrealized losses**	**Carrying value**	**At carrying value**
Government	**47,919**	**48,264**	**1,287**	**(4)**	**49,547**	**97,466**
Corporate	**-**	**148,863**	**2,246**	**(459)**	**150,650**	**150,650**
Total bonds	**47,919**	**197,127**	**3,533**	**(463)**	**200,197**	**248,116**
Other loans	**-**	**4,016**	**-**	**-**	**4,016**	**4,016**
Total fixed income	**47,919**	**201,143**	**3,533**	**(463)**	**204,213**	**252,132**
Income and investment trust units	**-**	**1,571**	**1,079**	**-**	**2,650**	**2,650**
Common shares	**-**	**21,904**	**4,317**	**(645)**	**25,576**	**25,576**
Preferred shares	**-**	**34,817**	**126**	**(4,720)**	**30,223**	**30,223**
Structured insurance assets	**11,263**	**-**	**-**	**-**	**-**	**11,263**
	59,182	**259,435**	**9,055**	**(5,828)**	**262,662**	**321,844**

As at December 31, 2018	FVTPL investments	Other investments				Total investments
	At carrying value	Amortized cost	Unrealized gains	Unrealized losses	Carrying value	At carrying value
Government	18,302	45,418	389	(90)	45,717	64,019
Corporate	-	152,757	113	(2,621)	150,249	150,249
Total bonds	18,302	198,175	502	(2,711)	195,966	214,268
Other loans	-	3,959	-	-	3,959	3,959
Total fixed income	18,302	202,134	502	(2,711)	199,925	218,227
Income and investment trust units	-	1,605	765	(32)	2,338	2,338
Common shares	-	22,702	4,505	(2,505)	24,702	24,702
Preferred shares	-	28,456	108	(3,257)	25,307	25,307
Structured insurance assets	12,300	-	-	-	-	12,300
	30,602	254,897	5,880	(8,505)	252,272	282,874

The Company is currently assessing the cash flow characteristics test, to determine if the securities the Company holds would pass the solely payments of principal and interest ("SPPI") test. Based on a preliminary assessment, most of the debt securities would pass the test, however the composition of debt securities may change significantly by the time IFRS 9 *Financial Instruments* is adopted along with IFRS 17, *Insurance Contracts*, effective for fiscal year commencing January 1, 2022.

Management has reviewed currently available information regarding those investments with a fair value less than carrying value. For the three and six months ended June 30, 2019, management did not recognize any impairments (June 30, 2018 – $nil, $325, respectively). Assumptions are used when estimating the value of impairment based on the Company's impairment policy, which involves comparing fair value to carrying value.

(in thousands of Canadian dollars, except as otherwise noted)

4.3 Pledged assets

In the normal course of insurance and reinsurance operations, the Company must secure its obligations under certain insurance and reinsurance contracts by collateralizing them with letters of credit or trust arrangements. These trusts and letters of credit may, in turn, be secured by the Company's fixed income investments. As at June 30, 2019, the Company has pledged cash amounting to $11,918 USD, and pledged fixed maturity investments amounting to $44,567 USD (December 31, 2018 – $32,088 USD and $20,090 USD, respectively), under insurance and reinsurance trust arrangements and are therefore not readily available for general use by the Company.

As at June 30, 2019, the Company pledged $310 USD (December 31, 2018 – $294 USD) of fixed income investments as security deposit to the Oklahoma Insurance Department to be held in trust for and pledged to the State of Oklahoma.

4.4 Structured insurance assets

The structured insurance assets represent the Company's purchase of the rights to collect commission income on portfolios of long-term care insurance policies issued by investment grade insurance companies. The commissions are paid into trusts, from which the amounts due to the Company, being the commissions net of expenses of the trusts, are paid. The commission income for the three and six months ended June 30, 2019 amounted to $382 and $851, respectively (June 30, 2018 – $461 and $985, respectively), which has been recorded within net investment income (see Note 16).

In March 2019, there was a one-time settlement gain of $6,075 USD on the structured insurance assets. In 2016, Trisura International, along with two other parties, commenced legal action against the third party, from whom Trisura International purchased the structured insurance assets in 2004. The lawsuit was fully settled in March 2019, and the amount was fully received in April 2019.

Note 5 – Fair value and notional amount of derivatives

The following sets out the fair value and notional amount of derivatives as at June 30, 2019 and December 31, 2018:

As at	**June 30, 2019**			December 31, 2018		
		Fair value			Fair value	
	Notional amount	**Asset**	**Liability**	Notional amount	Asset	Liability
Foreign currency contracts						
Forwards	**30,800**	**532**	-	24,101	-	380
Term to maturity						
Less than one year	**30,800**	**532**	-	24,101	-	380

The Company entered into foreign currency forward contracts to reduce its exposure to fluctuations in the USD, EUR and GBP exchange rates that could arise from its foreign denominated investments. The notional amounts of the derivatives are $18,005 USD, €1,859 EUR and £2,367 GBP. These derivatives are recorded at fair value and gains and losses are recorded in foreign exchange gains (losses).

(in thousands of Canadian dollars, except as otherwise noted)

Note 6 – Fair value measurement

The following sets out the financial instruments classified in accordance with the fair value hierarchy as at June 30, 2019 and December 31, 2018:

As at June 30, 2019	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Government	**97,466**	**-**	**97,466**	**-**
Corporate	**150,650**	**-**	**150,650**	**-**
Total bonds	**248,116**	**-**	**248,116**	**-**
Income and investment trust units	**2,650**	**2,650**	**-**	**-**
Common shares	**25,576**	**24,660**	**-**	**916**
Preferred shares	**30,223**	**30,223**	**-**	**-**
Structured insurance assets	**11,263**	**-**	**-**	**11,263**
Total investments	**317,828**	**57,533**	**248,116**	**12,179**
Derivative financial assets	**532**	**-**	**532**	**-**
	318,360	**57,533**	**248,648**	**12,179**

As at December 31, 2018	Total fair value	Level 1	Level 2	Level 3
Government	64,019	-	64,019	-
Corporate	150,249	-	150,249	-
Total bonds	214,268	-	214,268	-
Income and investment trust units	2,338	2,338	-	-
Common shares	24,702	23,897	-	805
Preferred shares	25,307	25,307	-	-
Structured insurance assets	12,300	-	-	12,300
Total investments	278,915	51,542	214,268	13,105
Derivative financial liabilities	(380)	-	(380)	-
	278,535	51,542	213,888	13,105

For the three and six months ended June 30, 2019 and the year ended December 31, 2018, there were no transfers between levels.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the hierarchy as at June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
Balance at beginning of period	**13,105**	13,223
Unrealized losses	**(553)**	(982)
Amortization of premium	**-**	(63)
Purchase of securities	**119**	205
Sale of securities	**-**	(363)
Foreign exchange	**(492)**	1,085
Balance at end of period	**12,179**	13,105

(in thousands of Canadian dollars, except as otherwise noted)

Note 6 – Fair value measurement (continued)

Included within the Level 3 assets are the structured insurance assets. The structured insurance assets are valued using a proprietary discounted cash flow valuation model. The fair value of this investment is based on discounting the expected future commission using a U.S. Treasury yield curve adjusted for credit risk associated with the receipt of future commission payments from the insurance companies. The credit risk adjustment is made since the Company takes on the credit risk of the insurance companies who have the ultimate commission obligations. The majority of commissions are received from insurance companies with an A.M. Best Company, Inc. ("A.M. Best") long-term issuer credit ratings of A or better.

Expected future cash flows are projected taking into account the probability of the policy being cancelled by the insured (referred to as lapse), the insured becoming sick and making a claim under the insurance policy (referred to as morbidity) and having future premium payments waived, or the insured dying (referred to as mortality). These actuarial risks are modeled using data drawn from the insurance companies and the Society of Actuaries Long Term Care Studies, as well as data from other public and non-public sources supplemented, as appropriate, by assistance from external actuarial consultants. Mortality rates used in the valuation of the Structured insurance assets are derived from the 2012 Individual Annuity Mortality table developed by the Society of Actuaries in the United States. The assumptions used are reviewed on a regular basis.

Note 7 – Unpaid claims and loss adjustment expenses

7.1 Unpaid claims and loss adjustment expenses by line of business

As at June 30, 2019	Gross	Ceded	Net
Trisura Guarantee			
Surety	**17,147**	**6,066**	**11,081**
Corporate Insurance	**32,471**	**2,071**	**30,400**
Risk Solutions (1)	**47,329**	**34,285**	**13,044**
	96,947	**42,422**	**54,525**
Trisura International			
Life	**81,859**	**-**	**81,859**
Property and casualty	**7,774**	**-**	**7,774**
	89,633	**-**	**89,633**
Trisura Specialty			
Property and casualty	**34,919**	**33,350**	**1,569**
	221,499	**75,772**	**145,727**

(1) As at June 30, 2019, Risk Solutions include the unpaid claims and loss adjustment expenses of Trisura Warranty.

(in thousands of Canadian dollars, except as otherwise noted)

7.1 Unpaid claims and loss adjustment expenses by line of business (continued)

As at December 31, 2018	Gross	Ceded	Net
Trisura Guarantee			
Surety	13,324	3,820	9,504
Corporate Insurance	31,182	2,013	29,169
Risk Solutions	40,925	27,251	13,674
	85,431	33,084	52,347
Trisura International			
Life	69,758	-	69,758
Property and casualty	9,330	-	9,330
	79,088	-	79,088
Trisura Specialty			
Property and casualty	9,478	8,964	514
	173,997	42,048	131,949

Unpaid claims and loss adjustment balances due from reinsurers, referred to above as Ceded balances, are grouped with unearned reinsurance assets in Recoverable from reinsurers on the Interim Consolidated Statements of Financial Position.

The following changes have occurred to the provision for unpaid claims for the three and six months ended June 30:

	Three months ended June 30		**Six months ended June 30**	
Gross claim reserves	**2019**	2018	**2019**	2018
Unpaid claims, beginning of period	**188,802**	177,012	**173,997**	178,885
Purchase of Trisura Warranty outstanding warranty contracts	-	-	**987**	-
Gross unpaid claims	**188,802**	177,012	**174,984**	178,885
Change in undiscounted estimates for losses of prior years	**(1,696)**	(1,015)	**(1,748)**	(2,218)
Change in discount rate	**9,874**	(382)	**17,479**	(350)
Change in provision for adverse deviation	**1,034**	223	**793**	27
Claims occurring in current year (including paid)	**51,008**	13,320	**88,537**	34,542
Paid on claims occurring during:				
Current year	**(18,667)**	(5,450)	**(35,494)**	(18,960)
Prior years	**(7,334)**	(9,695)	**(18,254)**	(22,232)
Foreign exchange	**(1,522)**	(1,939)	**(4,798)**	2,380
Unpaid claims, end of period	**221,499**	172,074	**221,499**	172,074

(in thousands of Canadian dollars, except as otherwise noted)

7.1 Unpaid claims and loss adjustment expenses by line of business (continued)

	Three months ended June 30		Six months ended June 30	
Reinsurers' share of claim reserves	**2019**	2018	**2019**	2018
Unpaid claims, beginning of period	**50,970**	34,063	**42,048**	38,246
Change in undiscounted estimates for losses of prior years	**26**	571	**1,548**	1,110
Change in discount rate	**(316)**	(118)	**(1,935)**	(315)
Change in provision for adverse deviation	**796**	73	**529**	(102)
Claims occurring in current year (including paid)	**43,451**	7,424	**73,762**	22,409
Paid on claims occurring during:				
Current year	**(17,059)**	(3,494)	**(32,218)**	(15,227)
Prior years	**(1,386)**	(3,114)	**(7,127)**	(10,716)
Foreign exchange	**(710)**	21	**(835)**	21
Unpaid claims, end of period	**75,772**	35,426	**75,772**	35,426

The Reinsurance premiums payable balance of $51,144 (December 31, 2018 – $41,406) on the Interim Consolidated Statements of Financial Position, reflects $54,950 of reinsurance payable (December 31, 2018 – $45,694), netted against $3,806 (December 31, 2018 – $4,288) of reinsurance recoverable.

Note 8 – Leases

The Company leases office premises for its own use. These leases have terms that range from 5 years to 12 years, most with an option to extend the lease at the end of the lease term. The Company also leases office equipment. These leases generally have a lease term of five years, with no renewal option or variable lease payments.

As at June 30, 2019, ROU assets of $7,781 are recorded in Capital assets and intangible assets, along with $2,427 of other Capital assets and intangible assets. As at June 30, 2019, lease liabilities of $7,813 are recorded in Accounts payable, accrued and other liabilities.

Information about leases for which the Company is a lessee is presented below:

As at June 30, 2019	**Premises**	**Office equipment**	**Total**
Right-of-use assets			
Balance as at December 31, 2018	**-**	**-**	**-**
Impact of IFRS 16 adoption	**8,333**	**25**	**8,358**
Balance as at January 1, 2019	**8,333**	**25**	**8,358**
Depreciation	**(572)**	**(5)**	**(577)**
Balance at end of period	**7,761**	**20**	**7,781**

(in thousands of Canadian dollars, except as otherwise noted)

Note 8 – Leases (continued)

As at	June 30, 2019
Lease liabilities maturity analysis	
Less than one year	**662**
One to five years	**4,982**
More than five years	**3,466**
Total undiscounted lease liabilities	**9,110**
Lease liabilities included in the Statements of Financial Position	**7,813**
Amounts recognized in the Statements of Cash Flows	
Total cash outflow for leases	**650**

	Three months ended June 30, 2019	Six months ended June 30, 2019
Amounts recognized in Statements of Comprehensive (Loss) Income		
Interest on lease liabilities	**79**	**155**
Expense relating to short-term leases	**52**	**71**
Income from subleasing right-of-use assets	**129**	**259**

Note 9 – Premiums and accounts receivable, and other assets

As at June 30, 2019 and December 31, 2018, Premiums and accounts receivable, and other assets consists of:

As at	June 30, 2019	December 31, 2018
Premiums receivable	**67,468**	41,251
Accrued investment income	**2,222**	1,991
Derivative assets	**532**	-
Tax recoveries	**420**	1,939
Prepaid expenses	**341**	316
Funds held by ceding companies	**236**	236
Miscellaneous assets	**924**	543
	72,143	46,276

As at June 30, 2019, Premiums receivable of $67,468 (December 31, 2018 – $41,251) includes an amount of $33,797 (December 31, 2018 – $20,504) related to Trisura Specialty for which there is a reinsurance payable of $33,745 (December 31, 2018 – $21,355).

(in thousands of Canadian dollars, except as otherwise noted)

Note 10 – Accounts payable, accrued and other liabilities

As at June 30, 2019 and December 31, 2018, Accounts payable, accrued and other liabilities consist of:

As at	June 30, 2019	December 31, 2018
Deposits in trust	**10,177**	9,565
Lease liabilities	**7,813**	-
Accrued liabilities	**5,371**	8,700
Other liabilities	**4,483**	3,891
Taxes payable	**1,422**	-
Share based payment plan	**1,226**	715
Investment contract liabilities	**376**	916
Derivatives liabilities	**-**	380
	30,868	24,167

Note 11 – Reinsurance

The Company uses reinsurance in the ordinary course of business to reduce its exposure to any one claim or event under the policies it issues. A large portion of this reinsurance is affected under reinsurance agreements known as treaty reinsurance. In some instances, it is negotiated on a facultative (one-off) basis for individual policies, generally when the exposures under these policies are not sufficiently mitigated by the treaty reinsurance.

Reinsurance does not relieve the Company of its obligations to policyholders. A contingent liability exists with respect to reinsurance ceded which would become a liability of the Company in the event that any reinsurer fails to honour its obligations. For this reason, the Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimize its exposure to losses from reinsurer insolvencies. All licensed reinsurers providing treaty or facultative reinsurance policies are required to have a minimum A.M. Best credit rating of A- at the inception of each policy.

In some instances, provisions are incorporated in the treaties to protect the Company in the event a reinsurer's credit rating deteriorates during the term of the reinsurance treaty. Unlicensed reinsurers must post an agreed upon level of collateral.

The Company has determined that a provision is not required for potentially uncollectible reinsurance as at June 30, 2019 and December 31, 2018.

The following table summarizes the components of Recoverable from reinsurers as at June 30, 2019 and December 31, 2018:

As at June 30,	2019	2018
Reinsurers' share of claims liabilities (see Note 7.1)	**75,772**	42,048
Reinsurers' share of unearned premiums	**122,214**	67,519
	197,986	109,567

Note 12 – Capital management

The Company's capital is its shareholders' equity, which consists of common shares, preferred shares, contributed surplus, accumulated deficit and accumulated other comprehensive loss. The Company reviews its capital structure on a regular basis to ensure an appropriate capital structure in keeping with all regulatory, business and shareholder obligations.

Oversight of the capital of the Company rests with management and the board of directors. Their objectives are twofold: (i) to ensure the Company is prudently capitalized relative to the amount and type of risks assumed and the requirements established by the laws and regulations applicable to the Company's regulated subsidiaries; and (ii) to ensure shareholders receive an appropriate return on their investment.

12.1 Regulatory capital

a) Trisura Guarantee

Under guidelines established by the Office of the Superintendent of Financial Institutions which apply to Trisura Guarantee, Canadian property and casualty insurance companies must maintain minimum levels of capital as determined in accordance with a prescribed test, the minimum capital test ("MCT"), which expresses available capital (actual capital plus or minus specified adjustments) as a percentage of required capital. Companies are expected to maintain MCT level of at least 150% and are further required to establish their own unique target MCT level based on the nature of their operations and the business they write. Management, with the board of directors' approval, has established Trisura Guarantee's target MCT level in accordance with these requirements. Trisura Guarantee has exceeded this measure as at June 30, 2019 and December 31, 2018.

b) Trisura International

Trisura International is subject to externally imposed regulatory capital requirements in Barbados. As at June 30, 2019 and December 31, 2018, Trisura International, including its subsidiaries, maintained sufficient capital to meet these requirements.

c) Trisura Specialty

Trisura Specialty is subject to externally imposed regulatory capital requirements by the Oklahoma Insurance Department as a Domestic Surplus Line Insurer. A requirement of the regulator is that Trisura Specialty's Risk Based Capital ratio ("RBC") exceed 150%. As at June 30, 2019 and December 31, 2018, Trisura Specialty exceeded this requirement.

Note 13 – Loan payable

On March 14, 2018, the Company entered a five-year revolving credit facility with a Canadian Schedule I bank (the "Bank") which allows for drawings of up to $35,000. Under this arrangement, the Company can draw funds in the form of short term banker's acceptances, Canadian prime rate advances, base rate advances or LIBOR rate advances. The interest rate is based on the current periods' bankers' acceptance rate, Canadian prime rate, base rate, or LIBOR rate, plus a margin. The loan balance is accounted for at amortized cost, which is equal to the carrying value. The minimum required annual payment consists only of interest, with no mandatory principal payments required.

On March 14, 2018, $29,700 was drawn under the loan, which was used to repay the outstanding loan payable of $29,700 which had been borrowed by a subsidiary of the Company under a previous lending facility.

The previous credit arrangement, which was in place throughout 2017 and until March 14, 2018 was arranged by way of a five-year lending facility funded through short term banker's acceptance or Canadian prime rate advances. The interest rate was based on the current period's bankers' acceptance rate or Canadian prime rate, plus a margin. The loan balance was accounted for at amortized cost, which is equal to the carrying value. The minimum required annual payment consisted only of interest, with no mandatory principal payments required.

As part of the covenants of the current and previous loan arrangements, the Company is required to maintain certain financial ratios, which were fully met as at June 30, 2019 and December 31, 2018.

For the three and six months ended June 30, 2019, the Company incurred $342 and $687 of interest expense, of which $237 and $506 (June 30, 2018 – $235 and $466, respectively) are related to the loan payable, respectively. As at June 30, 2019, the loan balance was $29,700 (December 31, 2018 – $29,700).

Note 14 – Share capital

The Company's authorized share capital consists of: (i) an unlimited number of common shares; (ii) an unlimited number of non-voting shares; and (iii) an unlimited number of preference shares (issuable in series). As at June 30, 2019 and December 31, 2018, no non-voting shares were issued.

Holders of the preferred shares are entitled to a cumulative dividend, payable quarterly, at a fixed rate of 6%. The dividend rate will be reset on December 31, 2022 and every five years thereafter at a rate equal to the five-year government of Canada bond yield plus 7.5%. The Company has the right to redeem preferred shares at any time on 30 to 60 days' notice.

The following tables show the common and preferred shares issued and outstanding:

As at	**June 30, 2019**		December 31, 2018	
	Number of shares	**Amount (in thousands)**	Number of shares	Amount (in thousands)
Balance, beginning of period	**6,621,680**	**163,582**	6,621,680	163,582
Balance, end period	**6,621,680**	**163,582**	6,621,680	163,582

The following table shows the preferred shares issued and outstanding:

As at	**June 30, 2019**		December 31, 2018	
	Number of shares	**Amount (in thousands)**	Number of shares	Amount (in thousands)
Balance, beginning of period	**64,000**	**1,600**	64,000	1,600
Balance, end of period	**64,000**	**1,600**	64,000	1,600

As at June 30, 2019, the Company declared and paid two quarterly dividends, each of $0.375 (in dollars) (December 31, 2018 – $0.375 (in dollars)) per share for each Class A, Series 1, preferred share.

Note 15 – Earnings per share

Basic earnings per common share are calculated by dividing the net income attributable to common shareholders for the reporting period by the weighted-average number of common shares.

Diluted earnings per share is calculated by dividing the net income attributable to common shareholders for the reporting period by the weighted-average number of common shares adjusted for the effects of all dilutive potential common shares, which consist of stock options.

	Three months ended June 30		**Six months ended June 30**	
	2019	2018	**2019**	2018
Net (loss) income attributable to shareholders	**(4,138)**	984	**(1,621)**	2,847
Less: Dividends declared on preferred shares, net of tax	**(24)**	(24)	**(48)**	(48)
Net (loss) income attributable to common shareholders	**(4,162)**	960	**(1,669)**	2,799
Weighted-average number of common shares outstanding (in shares)	**6,621,680**	6,621,680	**6,621,680**	6,621,680
EPS – basic (in dollars)	**(0.63)**	0.14	**(0.25)**	0.42
Dilutive effect of the conversion of options on common shares (in shares)	-	87,000	-	87,000
Diluted weighted-average number of common shares outstanding (in shares)	**6,621,680**	6,708,680	**6,621,680**	6,708,680
EPS – diluted (in dollars)	**(0.63)**	0.14	**(0.25)**	0.42

(in thousands of Canadian dollars, except as otherwise noted)

Note 16 – Net Investment Income

The components of net investment income for the three and six months ended June 30, 2019 and 2018 were as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Cash and cash equivalents	**119**	174	**213**	355
Bonds classified as loans and receivables	**204**	-	**372**	-
Available-for-sale bonds	**1,702**	1,117	**3,281**	2,177
Interest income	**2,025**	1,291	**3,866**	2,532
Available-for-sale income and investment trust units	**14**	(46)	**29**	(14)
Available-for-sale common shares	**344**	317	**631**	569
Available-for-sale preferred shares	**427**	204	**772**	369
Business and dividend income	**785**	475	**1,432**	924
Gains (losses) on investments held at FVTPL	**2,714**	(1,608)	**4,205**	(2,094)
Commission income structured insurance assets	**382**	461	**851**	985
Investment expenses	**(135)**	(158)	**(270)**	(341)
Other investments income	**2,961**	(1,305)	**4,786**	(1,450)
Available-for-sale bonds	**(177)**	1,011	**(599)**	2,042
Available-for-sale common shares	**400**	(20)	**1,105**	(361)
Available-for-sale preferred shares	**98**	627	**98**	627
Gain on disposition of investments	**321**	1,618	**604**	2,308
Impairment on investments	**-**	-	**-**	(325)
Net investment income	**6,092**	2,079	**10,688**	3,989

Note 17 – Investment in subsidiary

On June 19, 2018, 643 Can Ltd, an intermediary holding company and wholly-owned subsidiary of the Company, completed a voluntary dissolution. The assets and liabilities of the subsidiary were transferred to the Company, including the shares of its wholly-owned subsidiary Trisura Guarantee. This dissolution had no impact on the Consolidated Financial Position and results of operations of the Company.

(in thousands of Canadian dollars, except as otherwise noted)

Note 18 – Segmented information

The Company has three reportable segments. The operations of Trisura Guarantee are one reportable segment which comprises Surety, Risk Solutions and Corporate Insurance products underwritten in Canada as well as the operations of Trisura Warranty. The operations of TIHL, referred to below as Trisura International, is a second reportable segment which comprises the Company's international reinsurance operations. The operations of Trisura Specialty is a third operating segment, which provides specialty insurance solutions underwritten in the United States. The operations of Trisura Guarantee included the operations of its intermediary holding company, 643 Can Ltd, until June 19, 2018.

The following tables show the results for the three and six months ended June 30, 2019 and 2018:

Three months ended June 30, 2019	**Trisura Guarantee**	**Trisura International**	**Trisura Specialty**	**Corporate and consolidation adjustments**	**Total**
Net premiums earned	24,723	23	1,236	-	**25,982**
Fee income	212	-	1,540	-	**1,752**
Total underwriting revenue	24,935	23	2,776	-	**27,734**
Net claims	(5,638)	(9,819)	(806)	-	**(16,263)**
Net expenses	(17,171)	(662)	(1,787)	(761)	**(20,381)**
Total claims and expenses	(22,809)	(10,481)	(2,593)	(761)	**(36,644)**
Net underwriting income (loss)	2,126	(10,458)	183	(761)	**(8,910)**
Investment income	2,269	3,246	574	3	**6,092**
Foreign exchange gains (losses)	223	(76)	-	65	**212**
Interest expense	(66)	(1)	(18)	(257)	**(342)**
Net income (loss) before tax	**4,552**	**(7,289)**	**739**	**(950)**	**(2,948)**

Six months ended June 30, 2019	**Trisura Guarantee**	**Trisura International**	**Trisura Specialty**	**Corporate and consolidation adjustments**	**Total**
Net premiums earned	46,066	51	1,958	-	**48,075**
Fee income	3,596	-	2,505	-	**6,101**
Total underwriting revenue	49,662	51	4,463	-	**54,176**
Net claims	(10,356)	(19,579)	(1,222)	-	**(31,157)**
Net expenses	(33,668)	(1,253)	(3,249)	(2,019)	**(40,189)**
Total claims and expenses	(44,024)	(20,832)	(4,471)	(2,019)	**(71,346)**
Net underwriting income (loss)	5,638	(20,781)	(8)	(2,019)	**(17,170)**
Investment income	4,745	5,267	671	5	**10,688**
Settlement from structured insurance assets	-	8,077	-	-	**8,077**
Foreign exchange gains	240	220	-	124	**584**
Interest expense	(132)	(2)	(27)	(526)	**(687)**
Net income (loss) before tax	**10,491**	**(7,219)**	**636**	**(2,416)**	**1,492**

(in thousands of Canadian dollars, except as otherwise noted)

Note 18 – Segmented information (continued)

Three months ended June 30, 2018	Trisura Guarantee (inclusive of 643 Can Ltd)	Trisura International	Trisura Specialty	Corporate and consolidation adjustments	Total
Net premiums earned	21,175	22	94	-	21,291
Fee income	346	-	57	-	403
Total underwriting revenue	21,521	22	151	-	21,694
Net claims	(5,149)	1,011	(58)	-	(4,196)
Net expenses	(14,790)	(730)	(938)	(1,000)	(17,458)
Total claims and expenses	(19,939)	281	(996)	(1,000)	(21,654)
Net underwriting income (loss)	1,582	303	(845)	(1,000)	40
Investment income	1,722	(51)	398	10	2,079
Foreign exchange losses	-	(150)	-	(57)	(207)
Interest expense	-	-	-	(235)	(235)
Net income (loss) before tax	3,304	102	(447)	(1,282)	1,677

Six months ended June 30, 2018	Trisura Guarantee (inclusive of 643 Can Ltd)	Trisura International	Trisura Specialty	Corporate and consolidation adjustments	Total
Net premiums earned	40,395	46	104	-	40,545
Fee income	3,616	-	63	-	3,679
Total underwriting revenue	44,011	46	167	-	44,224
Net claims	(9,482)	647	(64)	-	(8,899)
Net expenses	(29,797)	(1,338)	(1,561)	(1,416)	(34,112)
Total claims and expenses	(39,279)	(691)	(1,625)	(1,416)	(43,011)
Net underwriting income (loss)	4,732	(645)	(1,458)	(1,416)	1,213
Investment income	2,177	1,130	662	20	3,989
Foreign exchange losses	-	(194)	-	(130)	(324)
Interest expense	(185)	-	-	(281)	(466)
Net income (loss) before tax	6,724	291	(796)	(1,807)	4,412

(in thousands of Canadian dollars, except as otherwise noted)

Note 18 – Segmented information (continued)

The following table shows Loan payable of $29,700 included with the liabilities in Corporate and consolidation adjustments at June 30, 2019 and December 31, 2018.

As at June 30, 2019	**Trisura Guarantee**	**Trisura International**	**Trisura Specialty**	**Corporate and consolidation adjustments**	**Total**
Assets	**396,602**	**112,463**	**251,510**	**(10,103)**	**750,472**
Liabilities	**313,195**	**92,591**	**184,695**	**30,542**	**621,023**

As at December 31, 2018	Trisura Guarantee	Trisura International	Trisura Specialty	Corporate and consolidation adjustments	Total
Assets	349,356	110,423	150,966	(9,763)	600,982
Liabilities	274,770	81,703	84,421	30,136	471,030

Note 19 – Income taxes

The following shows the major components of income tax expense for the three and six months ended June 30, 2019 and 2018:

	Three months ended June 30		**Six months ended June 30**	
	2019	2018	**2019**	2018
Current tax expense:				
Current year	**1,366**	482	**3,916**	1,470
Prior year true up	**6**	(83)	**112**	(83)
	1,372	399	**4,028**	1,387
Deferred tax expense:				
Origination and reversal of temporary differences	**(182)**	294	**(915)**	178
Income tax expense	**1,190**	693	**3,113**	1,565
Income taxes recorded in other comprehensive income:				
Net changes in unrealized gains on available-for-sale investments	**(247)**	502	**1,038**	(148)
Reclassification to net income of net losses on available-for-sale investments	**(36)**	(72)	**(217)**	20
Origination and reversal of temporary differences	**28**	(291)	**(19)**	(211)
Total income tax expense recorded in other comprehensive income	**(255)**	139	**802**	(339)

(in thousands of Canadian dollars, except as otherwise noted)

Note 19 – Income taxes (continued)

The following is a reconciliation of income taxes calculated at the statutory income tax rate to the income tax provision included in the Consolidated Statements of Comprehensive (Loss) Income for the three and six months ended June 30, 2019 and 2018:

	Three months ended June 30		**Six months ended June 30**	
	2019	2018	**2019**	2018
(Loss) income before income taxes	**(2,948)**	1,677	**1,492**	4,412
Statutory income tax rate	**26.5%**	26.5%	**26.5%**	26.5%
	(781)	444	**395**	1,169
Variations due to:				
Permanent differences	**204**	(112)	**(418)**	(192)
International operations subject to different tax rates	**1,512**	16	**2,707**	(54)
Unrecognized tax loss	**245**	426	**312**	723
Rate differentials:				
Current rate vs. future rate	**3**	3	**3**	3
Change in future rate	**1**	(1)	**2**	(1)
True up	**6**	(83)	**112**	(83)
Income tax expense	**1,190**	693	**3,113**	1,565